

FDIC State Profile

Fall 2005

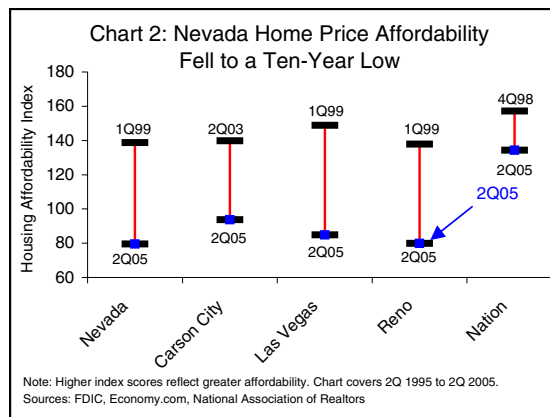
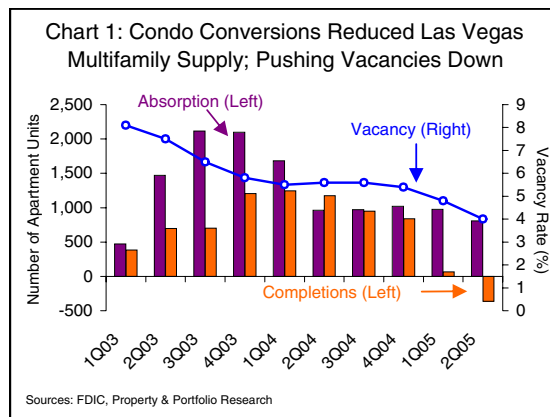
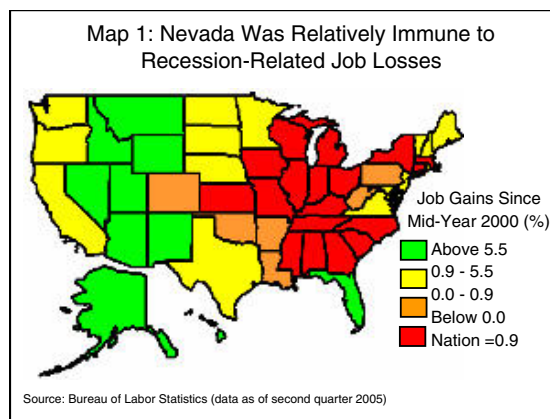
Nevada

Nevada weathered its recession-related job losses and now faces a bright future.

- Nevada lost more than 17,000 jobs during and after the 2001 recession (mainly tourism) but quickly recovered to top its previous peak by mid-2002 (see Map 1).
- Construction, tourism, and health services sector job gains drove the Nevada recovery. These sectors generated about half of net new jobs in the state since 2003.
- Annual job gains in Nevada moderated slightly between the first and second quarters of 2005, but the state still had the fastest job growth rate in the nation thanks to continued construction and consumer services expansion.
- Forecasts indicate continued job growth in Nevada through 2005.¹ But, growth may moderate in 2006 given the potential for rising interest rates and energy prices.
- Recent hurricanes likely will have indirect implications for the Nevada economy. Post hurricane reconstruction in the Southeast may create labor and construction supply pressures. Moreover, energy price increases may have some adverse effects on consumer demand, including travel and tourism.

Nevada employment and tourism gains drove improving commercial real estate (CRE) conditions.

- Las Vegas office and warehouse markets reported improving vacancies and higher rents year-over-year. Hotel revenue per available room continued to increase.²
- Apartment vacancies fell and rents rose as 3,000 units were removed from the market for condo conversions.³ Concerns exist for this sector should the housing market soften and condos return to for-rent status (see Chart 1).
- At second quarter 2005, the median CRE to Tier 1 capital ratio among Nevada-based institutions climbed to 465 percent, the second highest level in the nation.



¹Forecast source is Economy.com.

²Per Property&Portfolio Research and Torto Wheaton Research for office statistics.

³Per Property&Portfolio Research and Real Capital Analytics.

State Profile

- Construction and development loans (C&D) grew almost 55 percent in the year ending second quarter 2005 and Nevada ranked second in the nation for median C&D to Tier 1 capital.

House prices took off as speculative activity heightened and affordability declined.

- Annual home price gains in Nevada slowed to 28 percent in second quarter, down from 32 percent in first quarter, but well above a 13 percent nationwide increase.⁴ Nevada housing affordability dropped to its lowest level in a decade (see Chart 2).⁵
- Innovative mortgage (option ARM and interest only loans) and investor activity were high in Nevada during the first half of 2005, even among non-prime borrowers. For example, innovative mortgages accounted for more than half of subprime and Alt-A mortgages in Nevada compared with 42 percent nationwide. In addition, 34 percent of Alt-A (low documentation) mortgages in Nevada were to investors or second home purchasers versus 24 percent nationally.⁶

Bankruptcy filings are on the radar.

- Second quarter personal bankruptcy filings in Nevada remained relatively flat year-over-year despite pending bankruptcy law changes (see Chart 3).
- Past-due consumer loans at Nevada institutions were near historical lows. However, should interest rates rise or hurricane-related energy price hikes persist, institutions could experience an uptick in consumer loan delinquencies.

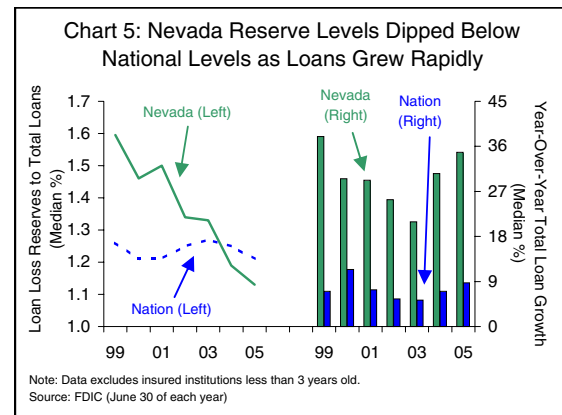
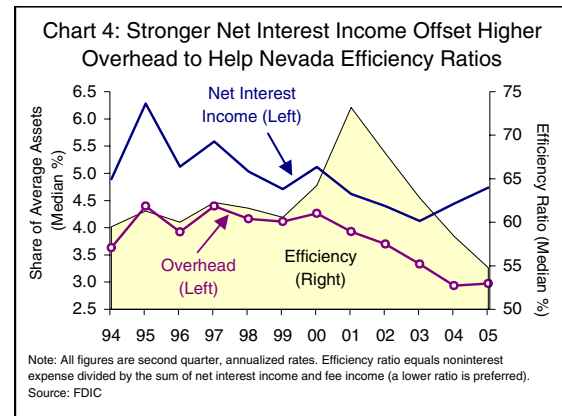
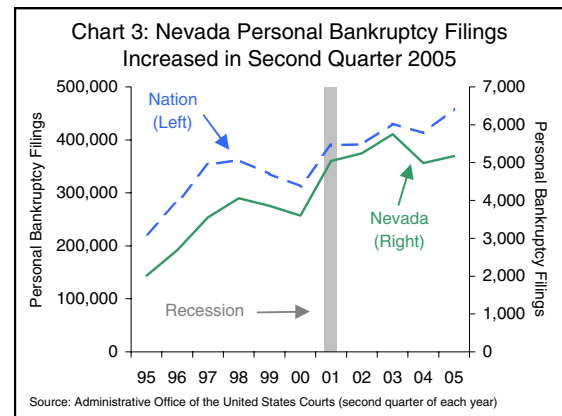
Net interest margins and profits rebounded.

- Widening margins benefited pre-tax earnings and efficiency ratios among Nevada-based institutions (see Chart 4).⁷ Lower provision expenses also helped offset rising overhead costs and lower gains on securities sales.
- While weaker year-over-year, profits among 14 specialty lenders were key to pre-tax return on asset ratios in Nevada ranking third highest in the nation.⁸
- Efficiency ratios (the share of net operating revenues absorbed by overhead expenses) ranked fourth best in the nation and improved year-over-year despite an increase in overhead expenses. Elevated exposures to high-yielding

loans and low-cost deposit bases in Nevada contributed to very wide margins and strong efficiency ratios.

Nevada institutions reported strong credit quality.

- Nevada insured institutions reported one of the lowest past-due loan levels in the nation as of second quarter 2005. Excellent economic conditions, low interest rates, and strong loan growth aided credit quality.
- The level of reserves to total loans declined to a historic low and lagged the nation (see Chart 5). Reserve levels may be pressured prospectively as portfolios season, particularly if interest rates continue to rise.



⁴Office of Federal Housing Enterprise Oversight.

⁵According to Economy.com and National Association of Realtors data.

⁶Based on LoanPerformance data.

⁷The efficiency ratio equals noninterest expense divided by the sum of net interest income and fee income.

⁸Specialty is defined to include insured institutions with high credit card or off-balance sheet lending exposures or low loan-to-asset ratios.

Nevada at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	6.5%	6.7%	6.2%	5.9%	3.5%
Manufacturing (4%)	2.8%	4.7%	5.6%	5.0%	1.8%
Other (non-manufacturing) Goods-Producing (12%)	14.9%	18.3%	16.7%	16.5%	8.0%
Private Service-Producing (73%)	5.9%	5.6%	5.5%	5.0%	3.0%
Government (12%)	3.9%	4.1%	2.3%	2.7%	3.1%
Unemployment Rate (% of labor force)	4.0	3.9	4.4	4.3	5.1

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	10.8%	10.8%	11.7%	10.1%	7.5%
Single-Family Home Permits	-16.0%	-12.2%	43.9%	14.5%	20.7%
Multifamily Building Permits	90.5%	-17.1%	5.3%	-48.5%	28.9%
Existing Home Sales	0.0%	-9.7%	26.6%	23.4%	27.4%
Home Price Index	28.1%	32.2%	25.1%	28.4%	8.9%
Bankruptcy Filings per 1000 people (quarterly annualized level)	8.68	6.06	8.69	7.39	11.59

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	38	38	36	38	37
Total Assets (in millions)	58,648	56,451	53,386	56,085	59,206
New Institutions (# < 3 years)	3	4	4	5	5
Subchapter S Institutions	4	4	3	4	3

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.46	0.55	0.76	0.45	0.79
ALLL/Total Loans (median %)	1.13	1.17	1.19	1.15	1.25
ALLL/Noncurrent Loans (median multiple)	3.06	3.07	2.65	3.06	3.21
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.03	0.19

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.35	9.35	9.13	9.78	9.39
Return on Assets (median %)	1.61	1.34	1.26	1.32	1.03
Pretax Return on Assets (median %)	2.21	1.97	1.84	1.90	1.56
Net Interest Margin (median %)	5.07	4.95	4.76	4.85	4.77
Yield on Earning Assets (median %)	6.72	6.28	5.95	6.01	6.38
Cost of Funding Earning Assets (median %)	1.59	1.39	1.14	1.22	1.39
Provisions to Avg. Assets (median %)	0.16	0.12	0.21	0.23	0.32
Noninterest Income to Avg. Assets (median %)	0.30	0.32	0.35	0.34	0.45
Overhead to Avg. Assets (median %)	2.98	2.93	2.93	2.92	3.24

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	71.4	72.7	70.7	72.5	73.1
Noncore Funding to Assets (median %)	19.9	17.6	14.3	15.8	17.7
Long-term Assets to Assets (median %, call filers)	10.0	11.4	13.1	10.4	11.0
Brokered Deposits (number of institutions)	21	20	20	20	19
Brokered Deposits to Assets (median % for those above)	8.4	7.6	7.5	4.7	6.6

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	96.8	95.6	111.4	95.3	102.3
Commercial Real Estate	465.4	472.1	401.8	447.9	384.3
Construction & Development	148.7	115.7	141.9	130.7	134.8
Multifamily Residential Real Estate	6.9	3.4	7.6	4.9	4.7
Nonresidential Real Estate	243.0	270.2	262.0	265.6	239.9
Residential Real Estate	36.3	36.5	33.4	38.2	29.5
Consumer	6.3	6.6	9.7	6.7	10.1
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Las Vegas-Paradise, NV	40	28,526	< \$250 million	17 (44.7%)
Reno-Sparks, NV	16	9,098	\$250 million to \$1 billion	10 (26.3%)
Carson City, NV	14	990	\$1 billion to \$10 billion	10 (26.3%)
			> \$10 billion	1 (2.6%)